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Review of NASA's Solicitation for the Leasing of Office Space in the Houston, Texas, Area. LCD-78-325; B-95136. April 25, 1978. 3 pp. + enclosure (4 pp.).

Report to Rep. Bob Gannage; by Fred J. Shafer, Director, Logistics and Communications Div.

Contact: Logistics and Communications Div.

Budget Function: General Government: General Property and Records Management (804).

Organization Concerned: National Aeronautics and Space Administration; General Services Administration; Department of Agriculture.

Congressional Relevance: Rep. Bob Gannage.

Authority: National Aeronautics and Space Act of 1958, as amended (P.L. 85-568).

A review was conducted of a National Aeronautics and Space Administration (NASA) request for proposal (RFP) for leasing of office space near the Johnson Space Center for use by an agency of the Department of Agriculture. Observations concerned the conditions and requirements placed on prospective lessors by the RFP, including the length of the proposal, the inflexibility of Government standard forms, and the requirement to bid a firm price for a basic term of 1 year with four successive 1-year renewal options and expansion options. A concern was the Government's failure to allow escalator clauses. The RFP incorporated standard forms and schedules used by the General Services Administration (GSA). GSA routinely obtains office space for 3-year and 5-year terms at firm prices. The terms of this solicitation reflect funding constraints and uncertain future needs, and quotes received by NASA were within the range received by GSA in a market survey. A panel working on proposed changes in GSA leasing procedures tentatively recommended that there should be an annual escalator provision and that forms should be simplified. (HTW)

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UNITED STATES GENERAL ACCOUNTING OFFICE
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LOGISTICS AND COMMUNICATIONS
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B-95136

April 25, 1978

The Honorable Bob Gammage
House of Representatives

Dear Mr. Gammage:

In response to your December 1, 1977, request, we have reviewed the National Aeronautics and Space Administration's (NASA's) Request for Proposal 9-BB531-25-7-383P to lease office space near Johnson Space Center, Houston, Texas, for use by an agency of the U.S. Department of Agriculture (USDA). NASA's authority to lease space is contained in section 203 (b)(3) of the National Aeronautics and Space Act of 1958, as amended (Public Law 85-568, July 29, 1958).

You asked that we respond to the comments contained in the attachment to your letter regarding the conditions and requirements placed on prospective lessors by the request for proposal. The thrust of the comments concerned the length of the proposal, the inflexibility of Government standard forms, and the requirement to bid a firm price for a basic term of 1 year with four successive 1-year renewal options and expansion options over the life of the lease. A principal concern here is the Government's failure to allow price adjustments or escalator clauses for maintenance, utilities, insurance, and taxes which may force the potential lessor to inflate proposed rental rates to guard against higher unknown future costs.

We made our review at NASA's Johnson Space Center in Houston, and at the General Services Administration's (GSA's) regional office in Fort Worth, Texas. We also met with the originator of the attachment to your letter.

Observations

The request for proposal used for this proposed lease incorporated the standard forms and schedules of specifications and requirements customarily used by GSA. These are necessarily detailed, specific, and somewhat restrictive

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to accommodate the volume of Federal law, policy, and regulations affecting lease acquisition of real property for Federal agency use.

GSA routinely obtains prepared and fully-serviced office space for 3- and 5-year terms at firm prices. Furthermore, the space requirements and expansion options peculiar to this solicitation were necessarily tailored to the specific needs of the using agency, and the successive 1-year terms reflect funding constraints and the uncertain future need for the space. GSA usually obtains firm rental rates on short-term leases without escalator clauses for taxes, utilities, or maintenance. GSA officials believe that the cost of administering escalator provisions in short-term leases outweighs the advantage of lower initial rental rates. It is their policy to include escalator clauses only in leases of 5 years or longer.

Finally, in this instance, the terms of the lease are favorable to the Government and apparently meet the objectives of the successful bidder. GSA conducted a market survey in the area of the Johnson Space Center around the same time that NASA was soliciting offers for this lease. It evaluated six potential locations and received quotes per square foot per year. NASA received quotes for this lease well within the range that GSA received in their market survey.

GSA recognizes some of the lessors' difficulties in offering space for Federal agency use and is trying to improve and simplify leasing procedures and practices. A panel of real estate representatives is formulating recommendations for changes in GSA leasing procedures that, if adopted, will likely affect other Federal agencies with leasing authority, including NASA. The final recommendations will be published in the Federal Register for public comment. GSA could adopt some of the proposals now under consideration, although others would require congressional action for implementation. Two tentative recommendations aimed at GSA which are related to your inquiry are:

- To allow an annual escalator provision that would raise rental payments, as operating expenses increase.
- To simplify its bid request and lease forms by eliminating unnecessary legal language and restrictive requirements.

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This letter's enclosure contains more detailed discussion of the leasing action. Although we did not obtain written agency comments, we discussed the matters covered in this report with agency officials, and their comments have been incorporated, where appropriate.

Copies are being sent to the Director of the Office of Management and Budget, the Administrator of the National Aeronautics and Space Administration, and the Administrator of General Services. Copies will be made available to other interested parties who request them.

Sincerely yours,



F. J. Shafer
Director

Enclosure

Background

NASA issued a September 9, 1977, Request for Proposal (9-BB531-25-7-383P) to acquire leased space near Johnson Space Center, Houston, Texas, for use by an agency of USDA. The space was to be used for a foreign wheat production estimating system based in part on data acquired from earth orbiting satellites. 1/ The USDA system planned to use techniques and methods developed by joint research of USDA, NASA, and the National Oceanic and Atmospheric Administration.

USDA's space requirements for the first year were less than the space requirements in subsequent years because USDA planned to procure equipment and increase personnel in stages. USDA management wanted the flexibility to cancel or defer expansion of the system at anytime and minimize investment losses.

In late 1976 the plans were to install equipment and test the USDA system in space provided by NASA at the Johnson Space Center and move later to a permanent USDA computer center for expansion to a fully operational system. In mid-1977 USDA concluded that the system would have to remain at Houston. Since USDA planned a phased buildup, NASA and USDA determined that there was not enough space at the Space Center for future needs and that other facilities would be required.

Because NASA was involved in the first year testing of the USDA system, that period was characterized as joint research. For that reason NASA considered that it could use its authority from section 203(b)(3) of the National Aeronautics and Space Act of 1958, as amended (Public Law 85-568, July 29, 1958), to lease space on behalf of USDA. Subsequent year space requirements, with expansion needs dictated by incremental increase in personnel and equipment, were to be the responsibility of USDA.

Since USDA does not have authority to lease general purpose space in nonrural areas, NASA sought to coordinate the leasing with GSA--the agency responsible for acquiring and

1/In late 1977 USDA dropped plans for a wheat-only estimating system and tentatively decided to extend experimentation to other crops and applications. At the time of our review, plans for future use of the leased space were not final.

managing general purpose leased space for most Federal agencies--so that GSA would, if necessary, accept and administer the lease in subsequent years. NASA obtained from GSA the various standard forms and schedules of specifications and requirements customarily used by GSA in its leasing. These documents incorporate the latest law and policy on lease acquisition of real property for Federal agency use and were simply modified and supplemented to meet the needs of this lease.

Conditions and requirements contained in request for proposal

The request for proposal was based on standard GSA schedules and forms and had more than 50 pages of special requirements, general building requirements and specifications, miscellaneous provisions, and information on services, utilities, and maintenance.

Offers were solicited for 9,000 square feet of air-conditioned space for 1 year, with options to renew for four successive 1-year terms and to (1) lease up to 5,000 square feet of additional contiguous space the second year, (2) up to 8,000 the third year, and (3) up to 11,000 for the fourth or fifth year. It provided that the Government's failure to exercise any expansion option would not affect its right to lease the initial 9,000 square feet or any of the successive year expansion options. This provision was included because USDA wanted to be able, if the planned expansion was delayed or deferred for any one year, to lease additional space in the following year or years.

As is customary with GSA's short-term leasing, the request for proposal required firm rental rates without escalator clauses for taxes or utilities and maintenance. GSA believes that the cost of administering escalator provisions in short-term leases outweighs the advantages of lower initial rental rates. GSA's policy is to include escalator clauses only in leases for 5 years or longer.

Offers received in response to the request for proposal

The request for proposal was furnished to six potential lessors and four responded. Each offered varying terms or conditions and prices. NASA and USDA officials toured each offered facility and evaluated each proposal using the award

factors in the request for proposal. All four received high marks for such award factors as telephone service, parking facilities, and physical characteristics of the building. Price evaluation was difficult because of the varied terms and conditions of each offer. For example:

- Bidder A offered a competitive price for the first year but did not state a price for renewal and expansion options. His bid noted that future years would be subject to negotiation and escalation for taxes, maintenance, and utilities.
- Bidder B offered to contract for three 1-year periods at fixed rates, but included a fee for reserving vacant expansion space. As bidder A, he did not state a price and required negotiations and escalation for the fourth and fifth years of the lease.
- Bidder C offered the highest rate for the initial year due largely to the estimated cost of preparing the space for USDA. Although his price for renewal was competitive, it was subject to a semiannual adjustment for changes in utilities, taxes, maintenance, and insurance costs.
- Only bidder D, the successful bidder, proposed firm prices for the initial and renewal terms. With his low rental rate and low space preparation charges, bidder D easily qualified as the low responsive bidder.

Bidder D offered a primary area of 13,381 square feet of prepared office and computer space at \$6 per square foot for the first year, excluding modifications estimated at \$9,000. The renewal rate for the primary area was \$5.04 a year per square foot, with expansion options at that rate. Negotiations conducted with bidder D in early November 1977 resulted in adjusting the amount of space required to meet USDA's needs and reduced the total price.

Award and terms of the NASA lease

Lease number NAS-9-15489, dated November 17, 1977, was awarded to bidder D for 10,594 square feet of office space at \$5.89 per square foot per annum for a 1-year term beginning January 6, 1978. The lease is renewable at the Government's option for two consecutive 1-year periods at the same rent, and for two additional consecutive 1-year periods at \$5.04

per square foot per annum. The expansion options required by the request for proposal were priced at \$5.04 per square foot per annum.

Space preparation costs of about \$27,000 are included in the primary area rental rates for the first 3 years at \$.85 per square foot per annum or about \$9,000 each year. In the event the lease is terminated before the lessor recovers about \$14,000 of these costs, the Government will pay compensatory damages up to that amount.

Comment on rental rates, terms, and conditions of the lease

At the time the NASA leasing action was taking place, GSA conducted a market survey in the Johnson Space Center vicinity seeking space for another Federal agency. GSA evaluated six potential locations and received quotes ranging from \$5.04 to \$7.20 per square foot per annum. The rental rates obtained by NASA are well within that range. Furthermore, the terms and conditions of NASA's lease are favorable to the Government, satisfy the stated needs of USDA, and apparently serve the objectives of the successful bidder.